

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

COO.OQ - Cooper Companies Inc at Wells Fargo Healthcare Conference

EVENT DATE/TIME: SEPTEMBER 06, 2023 / 7:00PM GMT

CORPORATE PARTICIPANTS

Albert G. White *CooperCompanies - President, CEO & Non-Independent Director*

CONFERENCE CALL PARTICIPANTS

Lawrence H. Biegelsen *Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst*

PRESENTATION

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst*

All right. Good afternoon, everyone. I'm Larry Biegelsen, the medical device analyst at Wells Fargo. It's my pleasure to host this session with the management from the CooperCompanies.

With us, we have Al White, President and CEO; Kim Duncan, Vice President of IR and Risk Management. In terms of format, it's going to be a fireside chat. If you have a question, please raise your hand. We'll come around with the mic. So Al and Kim, thanks so much for being here.

Albert G. White - *CooperCompanies - President, CEO & Non-Independent Director*

Yes. Thanks, Larry.

QUESTIONS AND ANSWERS

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst*

So Al, let's start with a recap of the Q3 results. Very strong organic growth of 12%, but EPS only beat consensus, I think, by \$0.01 despite the top line beat of about \$30 million. So talk about what went well and what could have gone better.

Albert G. White - *CooperCompanies - President, CEO & Non-Independent Director*

Yes. I think maybe 1 thing to highlight right away with respect to doing better is CooperSurgical's gross margin did come in a little bit lighter than we were expecting. We had some inventory issues really associated with some stuff going on in our fertility business. We addressed that and actually it was a little inventory and then it was also tied to a lot of the growth from the donor business.

You remember, we acquired donor egg and donor sperm in our Generate acquisition, and we're the largest company in that space, that segment of fertility. And we're growing that really rapidly right now. So there were some accounting charge associated with that. But we saw that happen in Q3. That was a little disappointing. We'll have a little bit of that happening actually in fiscal Q4, but that's not going to linger, so I'm not worried about it.

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst*

What was the impact, Al, dollar wise?

Albert G. White - *CooperCompanies - President, CEO & Non-Independent Director*

It was about \$0.07 of EPS in that range.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

In Q3?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

In Q3. \$0.48 maybe.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

What do you baking in for Q4?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

About half that.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

And then when we look at the guidance, you raised the guidance for both CVI and CSI, but the guidance implies a deceleration in both businesses. Now the comp is much tougher in CSI. So I get that, but not CVI. So why would growth in CVI slow from 13% in Q3 to 8% to 10% in Q4?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Well, I think we're going to have a good quarter in fiscal Q4 in CooperVision. I feel pretty good about that. We guided to 8% to 10%. We'll see where the numbers play out. I mean 13% is a very strong quarter for us in the contact lens side, as you know.

But that was our tenth quarter in a row of double-digit growth. So I still think we have a good shot to hit double-digit growth here in fiscal Q4. We'll see how that plays out, but 8% to 10%, I don't think it's a bad guidance range for us historically.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Maybe the answer is the same as the first question. But you raised sales by about \$45 million at the midpoint, but you left EPS unchanged at the midpoint, why?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Well, I think the \$45 million was for the year. So about \$30 million came from the quarter, and then you had the \$15 million coming in. So you got a little bit in Q4 here. Some of it is just FX related and the impact that we'll see in the P&L.

I mentioned the CooperSurgical gross margin, a little bit of that issue. And hopefully, that's a touch of conservatism on that. But we've been seeing that, Larry, which is strong growth, growth coming in stronger than what we were expecting and EPS hitting expectations.

So we've had some costs embedded in the P&L there as we've been driving that higher growth where we haven't seen all those incremental revenues make their way down to OI. It won't surprise me if we had to happen again here in fiscal Q4. I mean we need to get more leverage out of the P&L. I'm sure we'll talk about that as we go through. But there are some reasons for that.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Well, we'll talk about that more for sure. Staying with CVI. Back-to-school season is very important the contact lens market and industry, how was back-to-school season this year. I guess most kids are back at school now.

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Back at school, yes. I would say from an optical standpoint, it's ongoing. One of the things that we're continuing to see in the optometry space, truly on a global basis and back-to-school is different in different places. But it still demand is in excess of supply, meaning more people are wanting appointments for themselves and for their children, that aren't able to get those appointments.

So usually, you would have more of a back-to-school season centered on July and August. It's extending itself out now because people weren't able to get those appointments for their kids. Having said that, I will say that August was a good month. We've seen good activity on back-to-school. We actually just had the strongest month we've ever had for MiSight in the U.S. here. So we see that activity from a back-to-school basis. So yes, I'm pretty happy with how back-to-school season is going.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Good. And the other number that jumped out to me on the Q3 call was the 23% growth for your daily SiHy franchise? Yes. Remind us, it's been a while, I think, since you've given us an update on how big that market is, and your share?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Yes. I can rattle some numbers off. Yes, it's been a little while since we've gone through it. But the contact lens market is probably around \$10 billion right now in annual revenues. We do on a revenue basis, maybe a little bit north of \$10 billion, maybe the daily part of that is about \$6 billion, so call it 60%. And then probably half of that is SiHys.

So of the \$10 billion market, about \$3 billion would be daily silicone hydrogels. That part of the market is doing really well. We talk about it every quarter. I think our competitors talk about it every quarter. You're seeing whether the daily silicone hydrogel market is broken down by segment like spheres, which you're doing well. Torics are doing better, multifocal is doing well. You've seen that in our numbers or whether it's geographically. It's doing well in the Americas, it's doing well in Europe and also in Asia Pac. So yes, daily silicone is driving the market across the board.

And that's different for different companies. For some companies, that's a little bit more of a trade up because they have a bigger legacy hydrogel portfolio. And for some companies like ourselves, it's a little bit more in wearer-share gains but that being the driver at 23% was a fantastic number for us.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Where do you think your share is relative to your overall share of the contact lens market? Higher or lower? (inaudible) daily SiHy.

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

We're about 26% of the global contact lens market, and we're probably around that for daily SiHys, we're probably somewhere around that.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

I got it. Okay.

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

But definitely lower on dailies overall. Because our percentage market share of daily traditional hydrogels that component of the market is definitely in the teens. That's definitely lower. So if the market just continues to do what it's doing and doesn't change, our market share continues to increase just as we get our fair share of daily silicones, if that makes sense. Yes.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Got it. But the growth is in daily SiHy.

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

That's right. The growth in daily SiHy -- our growth in daily SiHy, our market share in that segment is good right now, much better than it is in the traditional hydrogels, which is going to keep driving market share gains for us.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Got it. And price, you said was about a 2% benefit to fiscal 2023 or that's the assumption. It sounds like there could be another price increase this year. Is that possible for you guys?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Well, we're right at the end of our fiscal year. I mean, calendar year. Most of the time, we do price increases, the industry and ourselves do price increases during the latter part of the year, beginning of the next year. So I won't comment on our pricing strategy. But yes, we've continued to see inflation pressure as we continue to see the marketplace. We've had competitors raise price, so I would anticipate price increases from us.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

And it looks like the contact lens market grew almost 10% when we aggregate the results of the 4 players. I think you gave a number on the call might have been a little lower than that for calendar Q2. What's driving that? And do you think the market can grow? How long do you think the market can grow above the historical 5% to 6% rate?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Yes. We had 8.4% was the number. So we gave 8%, to round down to 8%. But yes, the market had another good quarter. I think we're going to continue to see the contact lens market grow at higher levels for the next 5-plus years.

I mean you've got the shift to daily silicones that's occurring, and that's going to continue to happen. You've got growth in torics and multifocals, the subsegments of that part of the industry that are continuing to grow. You've got more wearers coming into the industry. We've talked about this in the past, which is just so many people on screens, so many kids on screens. I hate to see it, but there's nothing better for our space than people, kids being inside being on computer devices, right?

That pushes myopia. So at the end of the day, you're seeing more wearers coming into the market now than you were pre-COVID. You're seeing equal to, if not greater growth coming from daily SiHys. You're seeing greater growth coming from torics and multifocals as those spread around the world. Those were more predominantly a U.S. fit. Now you're seeing those in Europe and other spots around the world.

So you have all that.

And plus, by the way, pre-COVID price was 0% to 1% and now price is 2% to 3%. So how sustainable price is? I think, is a fair question mark. But the other factors I just listed are all there and sustainable. And then on top of that, for us, I would add our myopia management business, which adds another point to 2 of growth.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

And you're now proud MyDay multifocal wearer.

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

I am. I am. I laugh about it. I talked about it earlier that running a contact lens business, I just never put a contact lens in my eye because I never needed to. Started wearing reading glasses and noticed I couldn't see distance as well. So I went in and optometrist put me in MyDay multifocal, and I have to tell you, I said to her, I was like, no wonder we sell so many of these things, right? This is amazing.

And now, honestly, I couldn't imagine not, and it's been funny going through the experience a little bit of things you pick up, like about how to put contact lenses in and struggles people have and so forth. And several of my friends have been like, well, I can't get them because I can't touch my eye.

And I'm like, you don't touch your eye, right? That's 1 thing. Well, I couldn't get them in. I'm like, well, you're old, your eyes are dry." You need an eye drop in there. They're crazy, I'm afraid of taking them out. I'm like they're the easiest things in the world to take out. You push them down and pull them out. But I will say that once you get in them, you just can't go back. They're unbelievable.

So I'll tell you a quick funny story. We were in Napa this past weekend and when my wife and I woke up and I was like, "These lenses are so amazing. They're helping me to actually see better. I could see waking up this morning." And she's like, you just slept in them, which is true.

And I kept them in the whole day, I probably shouldn't have, but I never even noticed them. I love this about my wife, I love my wife anyways, but she's worn contact lenses forever between J&J and Alcon and now, of course, ours all the time, but she's like, that's a difference between your MyDays. She's like, that's why people like them and why they're so much better than your competition. She's like, you slept in them, you've worn them the whole day, you never even noticed.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Did the optometrists know that you're the CEO of the company?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

No.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Really?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

No, because I didn't have an optometrist. I actually scratched my eyes, so I went in and I was like, what would you recommend? And she was like, hands-down MyDay multifocal best lens out there. I said, well, is this going to take a long time? It was 5 minutes.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Interesting.

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

5 minutes. Put them in, I was like, awesome. What's that saying? There's some saying about not only am I or whatever, but I'm a very fair user.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

All right. Myopia management, 1 to 2 points of growth, what's the outlook there? You had strong MiSight sales in Q3, but ortho-k was a little soft. So what's the near-term and long-term outlook?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Well, things on MiSight are definitely looking better. As you know, I expected us to ramp that business up faster than we did. And we had COVID, we had some other stuff in there. But a couple of things that we've seen in the myopia management side of the business is typically, it's the mom bringing their child in.

They bring their child in and they talk about the progression of myopia and the mom essentially says wait a minute, I thought I was coming in for glasses for \$100, and now all of sudden, you want me to spend \$1,500 a year on myopia control and what is this and how does this work?

And she doesn't buy the contact lenses. So she leaves, she goes online, she looks at up and so forth. She comes back the next year, the optometrist says, your child's eyesight has gotten worse. We can grab that. We can show you where it's going.

I told you about this product last year, we need to get your child in this to reduce or stop the progression of their myopia. That's when the sales happened, right? And we've been seeing that. So we saw that happening. The next step that we've seen happening is the optometrists who started doing that were basically bidding 3 or 4 kids that were going to be high myopes because their parents were high myopes.

So they started, they tested it out, they figured it out. Now we see those practices are making it standard of care. Every child that comes into those higher-volume optometry practices now, pediatrics, are being sold MiSight. So that's becoming standard all over the place. We're seeing new independent start to get into fitting MiSight because they're seeing other people do it.

The other thing we're seeing is retailers getting into the game. So retailers talked about it for a little while, but they really weren't getting in and fitting it. And now they're starting to see the tens of thousands of kids that are wearing MiSight and we're having retailers come back saying, okay, well, clearly, this is legit, and this is working and there's a real business here, we have to get behind that. So we started seeing some of the bigger retailers fitting MiSight.

So you could tell, we accelerated growth in MiSight this quarter, and that included China being down year-over-year due a stocking order. So we're seeing good, solid growth out of MiSight. Now I don't think we're necessarily going to get like an inflection and shoot up, but the numbers are moving up into the right, and they're continuing to move up into the right and they're getting bigger. So I feel good about where we're at with MiSight and this back-to-school season, as I mentioned, was certainly a good start.

So we're moving in the right direction there. On ortho-k, we bought a number of ortho-k companies, we needed to align our portfolio and we've done that with some portfolio rationalization, but we had a little bit tougher of a quarter there plus some issues in China had our ortho-k business coming a little light. I do think we're going to have a good Q4, and we stood by that full year guidance probably at the lower end, but I think we'll have a good year driven by strength in MiSight.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

And next year, how should we think about growth off of the (inaudible) \$120 million?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

We'll get nice growth next year. I don't see any reason we won't. I think that MiSight is going to continue to put up good strong growth. A lot of our ortho-k business is in China. So that gets a little bit more dependent upon what happens in that marketplace.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

And what are you seeing in China today?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

We don't do a lot of business in China. So let me start there. But with respect to myopia management, where we don't do a lot, but we're anticipating doing a lot, we're seeing a ton of interest in myopia control. There's no question about that. Essilor talks about that and the success they're having with Stellest.

So a lot of interest, a lot of kids being fit in glasses right now. A lot of interest in MiSight. I'm excited about that, but it's lagging behind a little bit more than I was thinking it was going to. Now what will be interesting, what I think is happening to some degree, because keep in mind, that market is different than the U.S. where we don't have glasses, right, is you're getting a lot of kids fit in glasses.

When that child comes back for their 1-year appointment and their myopia has continued to progress, it's because they're not wearing their glasses. This is a treatment. That is a perfect time for the child to move over and start wearing contact lenses, perfect option for treatment. So I love the fact that there's so much interest in it, and we're getting so much growth on the glasses side because you're either going to get that move over to contact lenses because of compliance, or you're going to get it because the child wants to wear contact lenses because of all the other reasons they normally do, sports or getting to that age where they're more concerned about their looks.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

That's helpful. The R&D has increased a lot. And you said you're spending more on myopia management. I think it was like \$100 million in R&D year-to-date fiscal Q3 versus \$80 million a year ago. Where are you spending that money?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Well, that's a GAAP number. So on a non-GAAP number, it wouldn't be that large. You're getting decent increases that's coming from MDR costs. So we're working our way through MDR, within Vision and Surgical right now, but we're working our way through that pretty quickly. But that's what that is. That would be that increase on a GAAP basis.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

I got it. And myopia management, where are you kind of focusing your R&D efforts?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Well, we've got some really exciting stuff going on there. I mean obviously, silicone hydrogels, because we want to get MyDay MiSight out into the market. And I think that will help energize things.

We need to get a toric version out. We need a MiSight toric out there. So we're continuing to do R&D on that. We've got a number, I think, 7, 8, 9 different projects that are going on within R&D tied to myopia...

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

How long it would take?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Differing periods. I think we'll have some activity probably as soon as next year and then over the next couple of years or so. No, we won't I don't think we'll have silicone hydrogel that far, but I think we'll toric sooner. Yes.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Got it. And SightGlass, the 4-year data, when are you going to see that?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

So we got the 4-year data, it's good. It's going to be published I think maybe next week or the following week because I think there's a big optometry conference in China that it's going to be presented at. And then I think it's going to be presented in October here, at AOA or AAO, 1 of the conferences here. So you'll see it soon.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Do you think it will address the FDA's concerns. do you think it will get you over the goal line in the U.S.

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

I don't know. I mean we had good first year data on that. Second year data was okay, good third year data, good fourth year data, it should, in my opinion, but I'm not going to speculate on FDA activity. Obviously, I thought we would have it by now.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

You mean, the FDA has a very specific criteria, right, for myopia management.

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Yes, which has been a plus/minus. It's hard to get products approved. We obviously have MiSight, which is great. It's hard for anyone else to get in because it's hard to get products approved. You have to have good clinical data on that. So we'll see. We'll let them take a look at the clinical data. We're having discussions with them, and we'll see how it plays out.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

All right. CSI has also been strong. Fertility double-digit, how many quarters in a row?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Yes, 11.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

11. How sustainable is that?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Well, you know I've taken a shining, if you will, to starting off all our earnings calls with CooperVision's tenth quarter, fertility's 11th quarter. So I certainly hope we can keep that up for a little while longer. But at a higher level, the fertility industry is a great industry right now.

And every time I see things like Progeny talk about their growth and increased benefits coverage, that's great news. You hear private equity is investing in fertility clinics all around the world and opening clinics. And when you see some of the countries out there, Japan is a recent example, talking about the need to increase birth rates, tie that stuff to fertility. It's just a good industry.

It's as good or better than contact lenses, frankly, at the end of the day. We're a clear leader in the fertility space, and we're investing accordingly. So I think the fertility space is going to have strong growth for many, many, many, years.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

And PARAGARD?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

PARAGARD would not fit the same. No, I think with the competitive environment on PARAGARD, I've talked about volume on PARAGARD being flat. We'll see some growth from that because of price. That's what we saw this quarter. I think we'll see that in Q4. But I'm not anticipating volume growth there. So that ends up being more price driven.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Got it. So fiscal 2024, you gave a lot of color on the Q3 call. Just want to drill down a little bit, Al. Top line last year, I actually think the year before, too, you came in, you guided to 6% to 8% in the start of the year, total Cooper. The guidance is now 9% to 10%. It sounds like you have enough momentum to consider guiding to 7% to 9% to start the year. Is that fair?

Albert G. White - *CooperCompanies - President, CEO & Non-Independent Director*

Yes. For a number of years, we talked about, excluding COVID, 5% to 6% for the market and 6% to 7% for us, and that's how we were running for a number of years going into COVID. I think what we talked about earlier were the growth drivers, the daily SiHys, the number of wearers coming in and so forth.

And by the way, price in the near term probably puts us in a position here where we're looking at stronger growth. We'll give guidance in December, but it won't surprise me if we're strong. We'll see what happens. But the underlying fundamentals of the contact lens industry are better than they were pre-COVID.

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst*

This is a total Cooper number, the 6% to 8%, I think.

Albert G. White - *CooperCompanies - President, CEO & Non-Independent Director*

Yes. But if you lift up the contact lens piece, it's obviously 2/3 of our business. You bring up the entire business. So we'll see. I mean, we'll give guidance, obviously, in December.

Our women's health care business or the CooperSurgical business is also doing well. We posted a lot of strong quarters there. We just had another strong quarter. And we gave pretty decent guidance here in Q4. So that business is also growing nicely. It gets driven by fertility that we talked about. That's getting to be a bigger percentage of that business. And it's a double-digit grower.

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst*

And on the P&L, you talked about low double-digit constant currency operating income growth, stable to down interest expense and a 15% tax rate, which would be about 200 basis points higher than where you're going to land this year.

So that reduces EPS growth, the tax alone by about 200 bps. Math had broad stroke \$14. It looks like FX is a headwind. I threw out \$0.50 or 4% headwind on the call. Brian didn't confirm it. Maybe it's less, I don't know, \$0.30. Is it a headwind, anything more you can say?

Albert G. White - *CooperCompanies - President, CEO & Non-Independent Director*

Yes. I think, Brian said that you're not crazy or something like that, which is fair. It's a headwind as where we sit here today. Obviously, that changes by the day or by the week. And the problem you have any time you're talking about currency for that period of time is an entire year.

We have over \$1 billion of sales in Europe. So if the euro moves 2%, you're talking about \$20 million more in revenues or \$20 million less. So we didn't get into guidance on that as we sit here today, it would be a headwind, yes.

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst*

I mean if I do so, if I do the math, \$14 was everything you said on the call, then subtract FX? That's the way to think about it?

Albert G. White - *CooperCompanies - President, CEO & Non-Independent Director*

That would be the way to think about it correct, yes. And you'd have to just have an FX model to track on that, yes.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

How much of FX would you try to offset?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

We won't or very little. I mean, my opinion is still the same. And I'm frustrated by FX and the amount of time, obviously, it's been a headwind to us. But I still believe and we still manage our business saying, we need to deliver now low double-digit OI growth in constant currency. If currency moves against us, that is a negative for ourselves, it's a negative for investors, of course. If currency moves in our favor, we're not going to come back and say, "Oh, currency moved in our favor. I'm going to invest half of that or something like that. We're not going to do that. If currency moves in our favor, we're going to pass that currency along to the investment community.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

Got it. And why this focus on the double-digit constant currency OI growth as opposed to trying to do better given how depressed your margins are versus pre-COVID?

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Well, I think to some degree, it's you have to start going in the right direction. This year, we're going to grow OI double digits in constant currency. Next year, we'll grow it in, again, in double digits in constant currency. I was talking on the call, I'm talking today about a lot of the infrastructure investments that we have going on.

Some of that stuff we're going to start hurdling. And we are right now, and we're going to be able to get leverage from that. And we've had this happen before in our history at Cooper and once we get some of that behind us, it's far easier to get leverage and deliver for more OI to the bottom line.

If you look at 2019 to 2023 as an example, half of that margin degradation, came from FX. So outside of the FX, we should be able to make all that up. As a matter of fact, we should be able to make all that up and some given where our business sits today. But we still have pretty heavy investments going in fertility and in our myopia management business.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

And the 15% tax rate, just to confirm, no fundamental change in the tax rate. It's just you're not including discrete items that you typically see.

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

That's correct. Yes, yes. And we'll probably have some positive discrete items, stock option exercises, that kind of thing.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

And now that the Cook deal has been terminated, what's the capital allocation strategy and the M&A focus?

Albert G. White - *CooperCompanies - President, CEO & Non-Independent Director*

Well, I mean a lot of it goes to paying down debt right now because interest rates are high. We don't have a lot of debt per se and a leverage ratio perspective, but we have a decent amount of debt. There's not a lot we can do in the vision space or obviously in the fertility space. We'll continue to look at acquisitions and tuck-in acquisitions. If they make sense.

They've got to be strategic. They've got to offer a good return. And in today's world, they have to be something that we feel pretty good about that we're going to get a really good return on that acquisition investment.

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst*

Okay we've got 7 minutes left. We were very efficient, rarer than...

Albert G. White - *CooperCompanies - President, CEO & Non-Independent Director*

I've been talking a lot today.

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst*

I ran out of questions here, but I'll give you the last word. Happy to have you give closing remarks.

Albert G. White - *CooperCompanies - President, CEO & Non-Independent Director*

Yes. Well, I'll take a minute because this came up 1 of the questions in our discussions today. I thought it was interesting. People were asking about the margin and saying, as we think about the operating margin and the ability to get it back to what it was in pre-COVID, in 2019, if we choose a year, how do we drive that back up?

Fundamentally, can the business get back to those operating margins? And give us some examples of what's happening now that creates a challenge. And I talked about distribution, so I'll give that example here. We did a pretty sizable ERP IT-related upgrade in our European distribution center early this year.

Now you didn't hear about that and you didn't hear about the disruptions because as we implemented that, we kept our old system running because we didn't want to disrupt our customers. That was expensive. So going through that process of taking a system and rolling a new system in and spending the money to ensure that your customers are disrupted to the lowest level possible is expensive.

You have duplicative expenses associated with that activity. That is not something you do every year, maybe do that every 10 years. I'm flying to Rochester tomorrow to see our distribution center where we've almost doubled the size. You do that every 10 years or something like that. Well, that team has done a great job, but they've had to deal with that massive expansion that's going on there and the inefficiencies that come along with that.

So there's been a lot of that activity. That's within distribution, as an example, where we've had those inefficiencies and those costs. That stuff is getting behind us. We're seeing a number of those activities in the rearview mirror. That's going to make getting leverage in '24 easier than it was in 2023.

We've got other projects going on right now. Because we came out of COVID, big believers in the growth of the contact lens industry and the fertility industry. And we've taken a number of steps to very actively and very quickly get ourselves in a position to capitalize on those trends. And we've done that.

But it's cost us money, and it's created inefficiencies in our business. We even saw it here this last quarter. It's a little frustrating when I talk about the fertility gross margins. And you say, okay, well, some of that was tied to acquisitions. Well, why wasn't that done at the time of the acquisition? Could have done it then and then called it out and excluded it, but we didn't.

We have so much stuff going on with respect to fertility and growth in fertility and things that we're driving. To be able to say, okay, hold on a sec, we can take a little bit of a breather here. We got some of these projects behind us, let's take a look at some of this other stuff and finding some of that and fixing it and resolving it tells me that we're doing a good job, tells me some of these projects are getting behind us.

So although some of that's frustrating, I also take comfort in the fact that it's happening. So that that puts us in a spot as I was saying, to get better leverage this year, better leverage the following year. We're going to continue to invest, and you're going to have more capital and stuff go in, especially manufacturing equipment, adding capacity.

But from the middle of the P&L perspective, we're in a better spot to be able to deliver leverage. So I personally take comfort in that. And it's something that we are focused on as a business, driving a little bit more leverage after some very heavy investment years.

Lawrence H. Biegelsen - Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst

All right. Great. Good to hear, Al. Thanks for being with us. .

Albert G. White - CooperCompanies - President, CEO & Non-Independent Director

Yes. Absolutely. Thanks, Larry.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.